

Legislative Audit Division

State of Montana



Report to the Legislature

March 2000

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1999

Board of Regents and Office of the Commissioner of Higher Education

This report contains six recommendations. Issues addressed in the report include improving compliance with:

- ▶ Federal cash management, subrecipient monitoring, and lender review requirements.
- ▶ State law and accounting policy.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1999, will be issued by March 31, 2000. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705

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Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

March 2000

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Board of Regents and Office of the Commissioner of Higher Education for the two fiscal years ended June 30, 1999. This report contains six recommendations where the office could enhance compliance with federal laws and regulations and state law and accounting policy. The written response to the audit recommendations is included at the end of the audit report.

We thank the commissioner and his staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", with a long horizontal flourish extending to the right.

Scott A. Seacat
Legislative Auditor



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Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1999

Board of Regents and Office of the Commissioner of Higher Education

Members of the audit staff involved in this audit were Pearl M. Allen and Wayne D. Guazzo.

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Higher Education Page B-3

Appointed and Administrative Officials

Board of Regents of Higher Education

Term
Expires

Marc Racicot, Governor*

Nancy Keenan, Superintendent
of Public Instruction*

Patrick P. Davison, Chairman	Billings	2000
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Jeremy Fritz, Student Regent	Kalispell	2000
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Ed Jasmin, Vice Chairman	Bigfork	2004
--------------------------	---------	------

Lynn Morrison-Hamilton	Havre	2006
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Richard Roehm	Bozeman	2005
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Margie Thompson	Butte	2003
-----------------	-------	------

Deborah Wetsit	Billings	2001
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*Ex officio member

Administrative Officials

Dr. Richard Crofts, Commissioner of Higher Education

Dr. Joyce Scott, Deputy Commissioner for Academic and Student
Affairs

Rod Sundsted, Associate Commissioner for Fiscal Affairs

Laurie O. Neils, Director of Budget and Accounting

**Board of Regents and
Office of the
Commissioner of
Higher Education**

We performed a financial-compliance audit of the Board of Regents and Office of the Commissioner of Higher Education for the two fiscal years ended June 30, 1999. The office implemented five of the seven recommendations from the prior audit report.

This current audit report contains six recommendations. The first section in the report discusses ways in which the office can improve compliance with federal regulations. There are three recommendations related to management of cash received from the federal government, monitoring entities to which the office subgrants federal funds, and reviewing lenders who participate in the Federal Family Education Loan program.

The second section discusses where the office can improve compliance with state accounting policy on expenditure reductions, netting and classification of Guaranteed Student Loan Program transactions, and Agency Fund activity.

We issued a qualified opinion on the financial schedules contained in the report. This means the reader should use caution when relying on the presented financial information and the supporting data on the Statewide Budgeting and Accounting System.

The listing below serves as a means of summarizing the recommendations contained in the report, the office's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the office establish procedures to ensure it complies with the Cash Management Improvement Act agreement as required by federal law. Page 8

Office Response: Concur. See page B-4.

Recommendation #2

We recommend the office establish procedures to ensure it receives and reviews all subrecipient audit reports as required by federal regulations. Page 8

Office Response: Concur. See page B-4.

Report Summary

<u>Recommendation #3</u>	We recommend the office perform biennial reviews of lenders meeting federal criteria as required by federal regulations for the Federal Family Education Loan program.	Page 10
	<u>Office Response:</u> Concur. See page B-4.	
<u>Recommendation #4</u>	We recommend the office reduce expenditures only in the circumstances provided for in state accounting law and policy.	Page 11
	<u>Office Response:</u> Concur. See page B-5.	
<u>Recommendation #5</u>	We recommend the office review the nature of Guaranteed Student Loan Program transactions and the underlying financial activity and make the changes necessary to ensure transactions are recorded and classified on the accounting records in accordance with state law and accounting policy.	Page 12
	<u>Office Response:</u> Concur. See page B-5.	
<u>Recommendation #6</u>	We recommend the office record Agency Fund activity in accordance with state law and policy.	Page 13
	<u>Office Response:</u> Concur. See page B-6.	

Introduction

We performed a financial-compliance audit of the Board of Regents and Office of the Commissioner of Higher Education for the two fiscal years ended June 30, 1999. The objectives of our audit were to:

1. Determine the office's compliance with applicable state and federal laws and regulations.
2. Make recommendations for improvement in the office's management and internal controls.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the office's financial schedules are fairly presented for the two fiscal years ended June 30, 1999.

We coordinated our financial-compliance audit work with the annual financial-compliance audits of the Montana Guaranteed Student Loan Program (#98-6 and #99-06).

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations made in this report. Other areas of concern deemed not to have significant effect on the successful operations of the office are not specifically included in the report, but have been discussed with management.

As required by section 17-8-101(6), MCA, we audited and are reporting on the reasonableness of internal service fund fees and fund equity balances at the office. The office has one internal service fund, the Montana University System group insurance program. We reviewed the internal service fund activity and determined the rates are commensurate with costs and the fund equity balance is reasonable.

Introduction

Background

Board of Regents of Higher Education

Article X of the Montana Constitution establishes the Board of Regents of Higher Education to govern and control the Montana University System. The board has administrative and supervisory control of the units of the university system and general supervision of community colleges. The board consists of seven members appointed by the Governor and confirmed by the Senate. The Governor and Superintendent of Public Instruction are ex officio members of the board.

Office of the Commissioner of Higher Education

As required by Article X of the Montana Constitution, the board appoints a Commissioner of Higher Education. The board prescribes the term and duties of the commissioner. The commissioner is responsible for providing leadership, technical assistance, and staff support to the board and the units of the university system. Duties of the Office of the Commissioner of Higher Education include academic planning and curriculum review, budgetary planning and control, legal services and labor negotiation policies and procedures. Currently the office is organized into 12 programs. A brief discussion of each program follows:

Administration Program - provides general administration for all the duties of the office. This includes academic, financial, and legal administration as well as labor relations and personnel administration.

Student Assistance Program - consists of the Western Interstate Commission on Higher Education (WICHE) student exchange program; the Washington, Wyoming, Alaska, Montana, Idaho (WWAMI) cooperative medical program; the Leveraging Educational Assistance Partnership (LEAP) program; the Perkins Loan Fund match program; state matching dollars for the federal Supplemental Education Opportunity Grant (SEOG); and the Montana Workstudy Program.

Dwight D. Eisenhower Mathematics & Science Education Act - a federal program that provides funds to upgrade the teaching skills of teachers in the mathematics and science disciplines. Grants are

awarded to all institutions of Higher Education within the state on a competitive basis.

Community College Assistance - is the distribution of the state's assistance to the three community colleges.

MUS Group Insurance Program - accounts for all activity related to the Montana University System employee benefits program.

Talent Search - is a federally funded program to provide career and financial aid counseling to students who are either low-income, physically handicapped or culturally deprived.

Carl D. Perkins Administration - the Board of Regents is designated as the sole state agency for the federal Vocational Education - Basic Grants to States, formerly known as Carl D. Perkins, program. This program supports vocational education at the secondary and post secondary level. The federal School-to-Work grant is also accounted for in this program.

Appropriation Distribution - is the distribution of the state's General Fund and millage appropriations to the university units and the state's General Fund appropriations to agencies of the university system.

Agency Funds - accounts for funds temporarily held by the office for others. These funds relate to college license plate fees, the wellness program and the university system optional retirement plan.

Guaranteed Student Loan Program - processes loan applications, maintains records on student borrowers, warehouses records, collects loan payments and performs other duties related to the Federal Family Education Loan program.

Board of Regents - Administration - consists of the costs associated with the operation of the board.

Board of Regents Bond Payments - the board entered into a contract with the school district in Billings to retire the district's bonded indebtedness when the Billings College of Technology was transferred to the state. Payments were made through the Department of Administration. The final payment was made in fiscal year 1998-99.

Prior Audit Recommendations

Prior Audit Recommendations

We performed the audit of the Board of Regents and Office of the Commissioner of Higher Education for the two fiscal years ended June 30, 1997. The 1997 report contained seven recommendations and a disclosure issue. The office implemented five recommendations, partially implemented one recommendation, and did not implement one recommendation. The recommendations not fully implemented concerned cash management and Agency Fund activity. These issues are discussed further in this report on pages 7 and 13, respectively.

Findings and Recommendations

Federal Compliance

The office administers two federal financial assistance programs that are considered major grants under definitions in the Federal Single Audit Act. They are the Vocational Education - Basic Grants to States and Federal Family Education Loan programs. We tested the office's compliance with significant federal requirements of these programs. The following three sections discuss how the office could improve procedures to comply with federal requirements.

Federal Cash Management

The Cash Management Improvement Act (CMIA) requires the U. S. Secretary of Treasury to enter into agreements with states to establish terms and conditions for cash management of certain federal grant programs. The CMIA agreement applies to the office's Vocational Education - Basic Grants to States program. Under the agreement, the office must request funds based upon two patterns of expenditures. The office should request federal cash on an average clearance pattern for the payment of benefit expenses. The benefit expenses occur when the office makes payments for grant projects to the Office of Public Instruction, university units, or community-based organizations. The second method provides cash to pay direct administrative costs and should be requested every two weeks to coincide with the biweekly payroll. By requesting the funds in accordance with the established clearance pattern, the office can ensure federal cash is managed in accordance with the CMIA.

Based on our review of the office's cash draw and payment patterns, office personnel did not follow the agreement. The CMIA requires the office to draw cash to arrive six days after a state warrant is disbursed for grant expenditures. This requires the office to wait approximately five days after a warrant is issued before processing a cash draw on its federal account. We noted the office normally processed a wire transfer of federal cash one day after a state warrant was issued.

This concern was also reported to the office in the prior audit report. According to office personnel, the clearance patterns outlined in the CMIA were not always followed because of turnover in accounting personnel.

Findings and Recommendations

Recommendation #1

We recommend the office establish procedures to ensure it complies with the Cash Management Improvement Act agreement as required by federal law.

Subrecipient Monitoring

The office subgrants federal moneys received under the Vocational Education - Basic Grants to States program to other state agencies, community colleges, tribal colleges, and private nonprofit organizations. To ensure the subrecipients comply with applicable state and federal regulations, the office requires subrecipients that spend more than \$300,000 in federal funds from all sources to obtain an audit performed in accordance with the Federal Single Audit Act. When a compliance issue is disclosed in a Single Audit report, the office is responsible for ensuring the issue is appropriately resolved by the subrecipient.

The office has not established procedures to ensure it receives, and therefore reviews, copies of all audit reports from subrecipients who are required to have an audit. When a subgrant is established, the office provides the subrecipient with a standard letter that explains the federal regulations, including the single audit requirements, with which the subrecipient must comply. Some subrecipients routinely send reports to the office, but office personnel indicated there are no procedures to ensure all required reports are received and reviewed.

Recommendation #2

We recommend the office establish procedures to ensure it receives and reviews all subrecipient audit reports as required by federal regulations.

Lender Reviews

Federal regulations require the office's Guaranteed Student Loan Program to conduct comprehensive biennial on-site reviews of certain lenders participating in the Federal Family Education Loan program. These regulations require a review of lenders whose dollar volume of loans made or held and guaranteed by the program in the preceding year (a) equaled or exceeded two percent of the total of all loans guaranteed by the program that year, (b) was one of the ten largest lenders whose loans were guaranteed by the program that year, or (c) equaled or exceeded \$10 million.

Program personnel told us they consistently review the same four lenders and one loan servicing organization (which serves the other six high-volume lenders) because these lenders have consistently met the federal criteria for review in the past. They accumulate monthly loan volume information by lender and loan type into a spreadsheet for each federal fiscal year. However, they do not review the spreadsheet to make sure they are reviewing all the lenders that meet the federal criteria for review. These procedures do not ensure all lenders meeting the federal criteria are reviewed when there are significant changes in loan volume, as there were for federal fiscal year 1999.

The program also did not conduct lender reviews biennially as required by federal regulations. Program personnel performed three lender reviews between July 28, 1998, and July 26, 1999. These three lenders had previously been reviewed between three to five years earlier. The program's second highest lender, with 20 percent of loan volume in federal fiscal year 1998, was last reviewed in November 1993. The loan servicing organization was last reviewed in April 1995.

Program personnel said they recognized they lacked the staff resources to perform timely lender reviews and attempted to contract with an outside source for the reviews. They said they negotiated for several months but could not come to an agreement with the outside source for performing the reviews, so program staff are performing reviews as time allows.

Findings and Recommendations

The program could improve compliance with federal regulations by determining which lenders meet federal criteria for review based on their annual volume spreadsheets and performing lender reviews biennially.

Recommendation #3

We recommend the office perform biennial reviews of lenders meeting federal criteria as required by federal regulations for the Federal Family Education Loan program.

Financial Records and Accountability

Section 17-2-102, MCA, requires each state agency, including units of the university system, to record the transactions necessary to ensure the accounting records present the receipt, use and disposition of all money and other property in accordance with generally accepted accounting principles (GAAP) by the close of each fiscal year. The Department of Administration (DOA) is charged with the responsibility of establishing a uniform accounting system and establishing accounting policies to ensure the accounting records are in accordance with GAAP. Accounting personnel in each agency are responsible for applying state accounting policy to their financial operations.

We identified the following instances where office accounting personnel improperly netted financial activity contrary to state law and accounting policy.

Improper Expenditure Reductions

Cash Shortage in Flexible Spending Account

At the beginning of fiscal year 1998-99, the office experienced a cash shortage in its flexible spending account because employees may draw from their medical spending account before all their contributions are made. Office personnel temporarily moved \$85,000 of expenditures belonging to the flexible spending account to the account for the Montana University System group health insurance plan, which increased cash in the flexible spending

Findings and Recommendations

account by \$85,000. State policy allows such expenditure reductions only to correct accounting errors. In situations when an expenditure is necessary and the cash balance in the account is insufficient, state law and policy require an agency to obtain an interentity loan.

Indirect Cost Reimbursements

The office reduces office administration expenditures in the General Fund when it receives its indirect cost reimbursement for a federal program from the federal government. State policy requires agencies to record revenue instead of abating expenditures in the General Fund for indirect cost recoveries. As a result, the office's General Fund revenue and expenditures are understated by \$33,778 and \$34,418 in fiscal years 1997-98 and 1998-99, respectively. If these transactions had been properly recorded, the office would have exceeded its General Fund appropriation authority by \$24,416 in fiscal year 1998-99.

Office personnel told us the legislature reduced General Fund appropriation authority by the amount they expected to receive from indirect cost recoveries, so they believed this was how they should record recoveries.

Recommendation #4

We recommend the office reduce expenditures only in the circumstances provided for in state accounting law and policy.

Guaranteed Student Loan Program Activity

The office did not record Guaranteed Student Loan Program revenue or expenditures of \$19,120,149 during fiscal year 1997-98 for claims paid to lenders on loans due to defaults, death, disability, or bankruptcy of the borrowers. These amounts were funded by reinsurance payments received from the U.S. Department of Education. The office recorded this expenditure activity, which totaled \$18,909,386, in fiscal year 1998-99, but classified the revenue as federal instead of charges for services. In addition, the office recorded amounts received from the U.S. Department of

Findings and Recommendations

Education for default prevention activities during fiscal years 1997-98 and 1998-99 (\$358,441 and \$843,074, respectively), as federal revenue instead of charges for service revenue. DOA adjusted its Comprehensive Annual Financial Reports (CAFR) for fiscal years 1997-98 and 1998-99 for these errors.

The office pursues collection of the defaulted loans purchased by the Guaranteed Student Loan Program. It retains a federally established percentage of the money it collects to cover its collection costs and remits the rest to the U.S. Department of Education by reducing its bill to the department for reinsurance. Personnel record revenue for the amount of collection costs retained. Recording collections in this manner understates revenue and expenditures by the amounts provided to the U.S. Department of Education, which were \$3,020,975 and \$2,335,390 in fiscal years 1997-98 and 1998-99, respectively. The program did not have sufficient budget authority in either fiscal year to record these expenditures.

Office personnel told us they would have corrected the revenue misclassifications if they had known about them, but no one from DOA had discussed the CAFR adjustments with them. Personnel told us they believe their tendency to net Guaranteed Student Loan Program activity is based on how the accounting records for the operation were set up in the past, with an emphasis on reporting changes in asset and liability accounts without recording the underlying revenue and expenditures. Personnel should review the nature of the transactions they record and the underlying activity to determine if they are inappropriately netting or classifying other types of activity. They should obtain the budget authority necessary to properly record program activity.

Recommendation #5

We recommend the office review the nature of Guaranteed Student Loan Program transactions and the underlying financial activity and make the changes necessary to ensure transactions are recorded and classified on the accounting records in accordance with state law and accounting policy.

Findings and Recommendations

Agency Fund Activity

An Agency Fund is used to account for assets belonging to other individuals, governments, or funds. Revenues and expenditures should not be recorded in an Agency Fund under state law and accounting policy. The office has three agency funds. These funds account for retirement funds that will be transmitted to the optional retirement plan provider; college license plate fees that will be forwarded to the university foundations; and money provided to employees under a wellness program.

The office currently records amounts received in its agency funds as revenue and amounts disbursed from its agency funds as expenditures or reductions of revenue. At fiscal year-end, office personnel zero out (reverse) the revenue and expenditure balances against the property held in trust account. This partially implements our prior audit recommendation to reflect the amount due to other individuals and entities as property held in trust instead of accounts payable. However, because the office netted agency fund activity against the property held in trust account, increases and decreases to property held in trust were understated by \$385,734 and \$364,806 in fiscal years 1997-98 and 1998-99, respectively. Office personnel indicated they thought they had complied with state law and policy by recording the proper balance in the property held in trust account by the close of the fiscal year.

Recommendation #6

We recommend the office record Agency Fund activity in accordance with state law and policy.

Independent Auditor's Report & Office Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Board of Regents and Office of the Commissioner of Higher Education (office) for each of the fiscal years ended June 30, 1998 and 1999. The information contained in these financial schedules is the responsibility of the office's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the office's assets, liabilities, and cash flows.

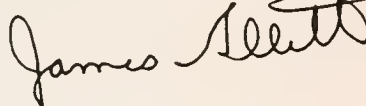
The office did not record claims paid to lenders and reinsurance received from the U.S. Department of Education for defaulted loans during fiscal year 1997-98. As a result of this error, budgeted revenue and budgeted expenditures on the Schedule of Changes in Fund Balances & Property Held in Trust, charges for services revenue on the Schedule of Total Revenues & Transfers-In, and benefits and claims insurance payments on the Schedule of Total Expenditures & Transfers-Out are understated by \$19,120,149 in the Special Revenue Fund for fiscal year 1997-98.

The office recorded reinsurance received from the U.S. Department of Education in fiscal year 1998-99 as federal, rather than charges for services, revenue. As a result of this misclassification, federal revenue is overstated and charges for services revenue is understated by \$18,909,386 in the Special Revenue Fund on the Schedule of Total Revenues & Transfers-In for fiscal year 1998-99.

In our opinion, except for the effect of the errors described in the preceding two paragraphs, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Board of Regents and Office of the Commissioner of Higher Education for each of the fiscal years ended June 30, 1998 and 1999, in conformity with the basis of accounting described in note 1.

As discussed in note 8 to the financial schedules, the Board of Regents and Office of the Commissioner of Higher Education changed its method of accounting for reinsurance and claims paid to lenders in fiscal year 1998-99.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett", written over a horizontal line.

James Gillett, CPA
Deputy Legislative Auditor

January 31, 2000

BOARD OF REGENTS AND OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	General Fund	Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Expendable Trust Fund
FUND BALANCE: July 1, 1998	\$ (4,338)	\$ 6,530,697	\$ 292,624	\$ 315,342	\$ 0	\$ 546,940
PROPERTY HELD IN TRUST: July 1, 1998					0	
ADDITIONS						
Budgeted Revenues & Transfers-In	1,015,893	33,375,448	2,227,460	25,959,960		126,398
Nonbudgeted Revenues & Transfers-In		206,774				
Prior Year Revenues & Transfers-In Adjustments	55,324	744,151		(29,059)		
Cash Transfers In (Out)	115,189,062	15,683,525				
Direct Entries to Fund Balance		2,913,600				
Additions to Property Held in Trust					66,584	
Total Additions	116,260,279	52,923,498	2,227,460	25,930,901	66,584	126,398
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	116,277,049	48,203,572	2,199,181	21,395,133		46,500
Nonbudgeted Expenditures & Transfers-Out				(21,939)		
Prior Year Expenditures & Transfers-Out Adjustments	(2,688)	(85,437)	25,000	(3,633)		
Reductions to Property Held in Trust					38,148	
Total Reductions	116,274,361	48,118,135	2,224,181	21,369,561	38,148	46,500
FUND BALANCE: June 30, 1999	\$ (18,420)	\$ 11,336,060	\$ 295,903	\$ 4,876,682	\$ 0	\$ 626,838
PROPERTY HELD IN TRUST: June 30, 1999					\$ 28,436	

This schedule is prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

BOARD OF REGENTS AND OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	General Fund	Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Expendable Trust Fund
FUND BALANCE: July 1, 1997	\$ (321,651)	\$ 5,625,108	\$ 0	\$ 1,003,191	\$ 0	\$ 406,555
PROPERTY HELD IN TRUST: July 1, 1997					\$ 25,282	
ADDITIONS						
Budgeted Revenues & Transfers-In		11,198,120	2,187,418	22,245,409		213,505
Nonbudgeted Revenues & Transfers-In		50,828			25,326	
Prior Year Revenues & Transfers-In Adjustments		(311,506)				
Cash Transfers In (Out)	113,295,522	15,775,471				
Direct Entries to Fund Balance			53,647	(65,644)		
Total Additions	113,295,522	26,712,913	2,241,065	22,179,765	25,326	213,505
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	113,513,507	25,082,987	1,948,441	24,150,030		73,120
Nonbudgeted Expenditures & Transfers-Out		251,692		(1,276,883)	25,326	
Prior Year Expenditures & Transfers-Out Adjustments	(535,298)	472,645		(5,533)		
Reductions to Property Held in Trust					25,282	
Total Reductions	112,978,209	25,807,324	1,948,441	22,867,614	50,608	73,120
FUND BALANCE: June 30, 1998	\$ (4,338)	\$ 6,530,697	\$ 292,624	\$ 315,342	\$ 0	\$ 546,940
PROPERTY HELD IN TRUST: June 30, 1998					\$ 0	

This schedule is prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

BOARD OF REGENTS AND OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	General Fund	Special Revenue Fund	Enterprise Fund	Internal Service Fund	Expendable Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Taxes	\$ 1,071,217					\$ 1,071,217
Charges for Services		\$ 4,391,622			\$ 94,479	4,486,101
Investment Earnings		357,687		\$ 211,866	31,919	601,472
Contributions and Premiums			\$ 2,227,460	25,583,516		27,810,976
Miscellaneous		13,755		135,519		149,274
Other Financing Sources		917,249				917,249
Federal		28,646,060				28,646,060
Total Revenues & Transfers-In	1,071,217	34,326,373	2,227,460	25,930,901	126,398	63,682,349
Less: Nonbudgeted Revenues & Transfers-In		206,774				206,774
Prior Year Revenues & Transfers-In Adjustments	55,324	744,151		(29,059)		770,416
Actual Budgeted Revenues & Transfers-In	1,015,893	33,375,448	2,227,460	25,959,960	126,398	62,705,159
Estimated Revenues & Transfers-In	900,000	34,640,828	2,000,000	24,400,000	225,000	62,165,828
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 115,893	\$ (1,265,380)	\$ 227,460	\$ 1,559,960	\$ (98,602)	\$ 539,331
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Taxes	\$ 115,893	\$ (906,000)				\$ (790,107)
Charges for Services		(351,529)			\$ (105,521)	(457,050)
Investment Earnings		(35,332)		\$ (88,133)	6,919	(116,546)
Contributions and Premiums			\$ 227,460	1,684,333		1,911,793
Miscellaneous				(36,240)		(36,240)
Other Financing Sources		(774,549)				(774,549)
Federal		802,030				802,030
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 115,893	\$ (1,265,380)	\$ 227,460	\$ 1,559,960	\$ (98,602)	\$ 539,331

This schedule is prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

BOARD OF REGENTS AND OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Expendable Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Taxes	\$ (314,086)					\$ (314,086)
Charges for Services	3,255,047				\$ 184,698	3,439,745
Investment Earnings	341,151		\$ 182,253		28,807	552,211
Contributions and Premiums		\$ 2,187,418	21,932,521	\$ 25,326		24,145,265
Miscellaneous			130,635			130,635
Other Financing Sources	244,483					244,483
Federal	7,410,847					7,410,847
Total Revenues & Transfers-In	10,937,442	2,187,418	22,245,409	25,326	213,505	35,609,100
Less: Nonbudgeted Revenues & Transfers-In	50,828			25,326		76,154
Prior Year Revenues & Transfers-In Adjustments	(311,506)					(311,506)
Actual Budgeted Revenues & Transfers-In	11,198,120	2,187,418	22,245,409	0	213,505	35,844,452
Estimated Revenues & Transfers-In	10,574,420	1,700,000	22,420,000		205,000	34,899,420
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 623,700	\$ 487,418	\$ (174,591)	\$ 0	\$ 8,505	\$ 945,032
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Taxes	\$ (906,000)					\$ (906,000)
Charges for Services	1,357,049				\$ (5,302)	1,351,747
Investment Earnings	(34,676)		\$ (137,747)		13,807	(158,616)
Contributions and Premiums		\$ 487,418	32,521			519,939
Miscellaneous			(69,365)			(69,365)
Other Financing Sources	(8,062)					(8,062)
Federal	215,389					215,389
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 623,700	\$ 487,418	\$ (174,591)	\$ 0	\$ 8,505	\$ 945,032

This schedule is prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

BOARD OF REGENTS AND OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	Administration Program	Student Assistance Program	Dde Mathematics & Sci Ed Act	Community College Assistance	Mus Group Insurance Program	Talent Search	C.D. Perkins Admin	Appropriation Distribution	Agency Funds	Guaranteed Student Loan Pgm	Board Of Regents-Admin	B Of R Bond Payments	Total
PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT													
Personal Services													
Salaries	\$ 690,580		\$ 5,281		\$ 115,320	\$ 295,553	\$ 190,080			\$ 1,019,256			\$ 2,316,070
Other Compensation			1,294		28,383	89,426	44,359			303,421	\$ 11,900		11,900
Employee Benefits	147,112				42,323								613,995
Personal Services-Other													42,323
Total	837,692		6,575		186,026	384,979	234,439			1,322,677	11,900		2,984,288
Operating Expenses													
Other Services	93,789		2,953		1,495,009	3,486	14,569		\$ (3,131)	1,088,599	11,599		2,706,873
Supplies & Materials	41,532		212		3,341	43,573	45,912		1,283	48,657	3,648		188,158
Communications	26,095		213		2,488	12,112	12,783			150,765	307		204,763
Travel	17,190		5,030		1,415	43,369	51,509			57,364	25,196		201,073
Rent	85,759					151	3,911		1,766	143,649			235,236
Utilities	10,692									17,490			28,182
Repair & Maintenance	18,651				177	79	59		82	132,444			151,492
Other Expenses	(3,485)		223		247,336	39,194	10,689			1,837,462	910		2,132,329
Goods Purchased For Resale										83			83
Total	290,223		8,631		1,749,766	141,964	139,432		0	3,476,513	41,660		5,848,189
Equipment & Intangible Assets													
Equipment	33,520												33,520
Intangible Assets										3,223			3,223
Total	33,520									3,223			36,743
Local Assistance													
From State Sources		\$ 83,000		\$ 4,761,928									4,844,928
Total		83,000		4,761,928									4,844,928
Grants													
From State Sources		5,724,652											5,724,652
From Federal Sources	1,000	71,876	148,247			7,953	2,192,031						2,421,107
From Other Sources		46,500											46,500
Total	1,000	5,843,028	148,247			7,953	2,192,031						8,192,259
Benefits & Claims													
To Individuals					(405,973)								(405,973)
Insurance Payments					22,063,923					19,119,497			41,183,420
Total					21,657,950					19,119,497			40,777,447
Transfers													
Accounting Entity Transfers							4,459,874	\$ 120,790,214					125,250,088
Total							4,459,874	120,790,214					125,250,088
Debt Service													
Leases										3,748		\$ 95,048	98,796
Total										3,748		95,048	98,796
Total Program Expenditures & Transfers-Out	\$ 1,162,435	\$ 5,926,028	\$ 163,453	\$ 4,761,928	\$ 23,593,742	\$ 534,896	\$ 7,025,776	\$ 120,790,214	\$ 0	\$ 23,925,658	\$ 53,560	\$ 95,048	\$ 188,032,738
PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund	\$ 1,161,435	\$ 5,807,652		\$ 4,761,928		\$ 79,588	\$ 85,235	\$ 104,229,915			\$ 53,560	\$ 95,048	\$ 116,274,361
Special Revenue Fund	1,000	71,876	\$ 163,453			455,308	6,940,541	16,560,299		\$ 23,925,658			48,118,135
Enterpnse Fund					\$ 2,224,181								2,224,181
Internal Service Fund					21,369,561								21,369,561
Expendable Trust Fund		46,500											46,500
Total Program Expenditures & Transfers-Out	1,162,435	5,926,028	163,453	4,761,928	23,593,742	534,896	7,025,776	120,790,214	\$ 0	23,925,658	53,560	95,048	188,032,738
Less Nonbudgeted Expenditures & Transfers-Out					(21,939)								(21,939)
Prior Year Expenditures & Transfers-Out Adjustments	2,176	(4,863)	(17,133)		21,368		(71,353)			3,044			(66,761)
Actual Budgeted Expenditures & Transfers-Out	1,160,259	5,930,891	180,586	4,761,928	23,594,313	534,896	7,097,129	120,790,214	0	23,922,614	53,560	95,048	188,121,438
Budget Authority	1,200,695	6,085,951	309,078	4,761,928	26,631,073	548,399	7,390,227	126,163,729		25,233,021	53,942	95,048	198,473,091
Unspent Budget Authority	\$ 40,436	\$ 155,060	\$ 128,492	\$ 0	\$ 3,036,760	\$ 13,503	\$ 293,098	\$ 5,373,515	\$ 0	\$ 1,310,407	\$ 382	\$ 0	\$ 10,351,653
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund	\$ 3,899	\$ 1,560				\$ 50	\$ 4,075	\$ 36			\$ 382		\$ 10,002
Special Revenue Fund	36,537		\$ 128,492			13,453	289,023	5,373,479		\$ 1,310,407			7,151,391
Enterpnse Fund					\$ 30,819								30,819
Internal Service Fund					3,005,941								3,005,941
Expendable Trust Fund		153,500											153,500
Unspent Budget Authority	\$ 40,436	\$ 155,060	\$ 128,492	\$ 0	\$ 3,036,760	\$ 13,503	\$ 293,098	\$ 5,373,515	\$ 0	\$ 1,310,407	\$ 382	\$ 0	\$ 10,351,653

This schedule is prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11

BOARD OF REGENTS AND OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	Administration Program	Student Assistance Program	Dde Mathematics & Sci Ed Act	Community College Assistance	Mus Group Insurance Program	Talent Search	C.D. Perkins Admin	Appropriation Distribution	Agency Funds	Guaranteed Student Loan Pgm	Board Of Regents-Admin	B Of R Bond Payments	Total
PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT													
Personal Services													
Salaries	\$ 641,431		\$ 4,735		\$ 127,379	\$ 305,874	\$ 171,685			\$ 959,507			\$ 2,210,611
Other Compensation										50	\$ 12,100		12,150
Employee Benefits	135,714		1,364		42,037	84,862	42,253			276,184			582,414
Personal Services-Other					(18,989)								(18,989)
Total	777,145		6,099		150,427	390,736	213,938			1,235,741	12,100		2,786,186
Operating Expenses													
Other Services	79,557		1,156		1,537,909	10,661	26,038	\$ 3,000	\$ 22,607	976,928	41		2,657,897
Supplies & Materials	15,110		160		4,481	30,734	12,040	1,677	1,039	47,641	178		113,060
Communications	28,021				4,259	10,454	12,641			125,574	223		181,172
Travel	24,515		4,781		2,026	57,177	45,104	1,504		42,502	23,938		201,547
Rent	81,639					1,125	380		1,680	133,373			218,197
Utilities	7,433									17,397			24,830
Repair & Maintenance	17,535					32				131,767			149,334
Other Expenses	65,350		122		434,008	40,162	10,271			1,129,635	7,345		1,686,893
Total	319,160		6,219		1,982,583	150,345	106,474	6,181	25,326	2,604,817	31,725		5,232,930
Equipment & Intangible Assets													
Intangible Assets										25,455			25,455
Total										25,455			25,455
Local Assistance													
From State Sources		\$ 81,000		\$ 4,702,882									4,783,882
Total		81,000		4,702,882									4,783,882
Grants													
From State Sources		5,405,755											5,405,755
From Federal Sources		140,267	155,650				2,306,621						2,602,538
From Other Sources		73,120											73,120
Total		5,619,142	155,650				2,306,621						8,081,413
Benefits & Claims													
Insurance Payments					22,682,945	1,000							22,683,945
Total					22,682,945	1,000							22,683,945
Transfers													
Accounting Entity Transfers		112,121					3,001,314	116,868,631					119,982,066
Nonmandatory Transfers										25,001			25,001
Total		112,121					3,001,314	116,868,631		25,001			120,007,067
Debt Service													
Leases										4,061		\$ 95,095	99,156
Total										4,061		95,095	99,156
Total Program Expenditures & Transfers-Out	\$ 1,096,305	\$ 5,812,263	\$ 167,968	\$ 4,702,882	\$ 24,816,055	\$ 542,081	\$ 5,628,347	\$ 116,874,812	\$ 25,326	\$ 3,895,075	\$ 43,825	\$ 95,095	\$ 163,700,034
PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund	\$ 1,095,284	\$ 5,486,755		\$ 4,702,882		\$ 86,872	\$ 73,169	\$ 101,394,327			\$ 43,825	\$ 95,095	\$ 112,978,209
Special Revenue Fund	1,021	252,388	\$ 167,968			455,209	5,555,178	15,480,485		\$ 3,895,075			25,807,324
Enterpse Fund					\$ 1,948,441								1,948,441
Internal Service Fund					22,867,614								22,867,614
Agency Fund									\$ 25,326				25,326
Expendable Trust Fund		73,120											73,120
Total Program Expenditures & Transfers-Out	1,096,305	5,812,263	167,968	4,702,882	24,816,055	542,081	5,628,347	116,874,812	25,326	3,895,075	43,825	95,095	163,700,034
Less Nonbudgeted Expenditures & Transfers-Out					(1,276,883)				25,326	251,692			(999,865)
Prior Year Expenditures & Transfers-Out Adjustments	4,432	(7,032)	(15,753)		(5,533)	(422)	(43,888)			10			(68,186)
Actual Budgeted Expenditures & Transfers-Out	1,091,873	5,819,295	183,721	4,702,882	26,098,471	542,503	5,672,235	116,874,812	0	3,643,373	43,825	95,095	164,768,085
Budget Authority	1,228,473	5,988,896	217,218	4,702,882	26,363,898	543,081	5,732,256	122,001,491		3,993,749	43,850	95,095	170,910,889
Unspent Budget Authority	\$ 136,600	\$ 169,601	\$ 33,497	\$ 0	\$ 265,427	\$ 578	\$ 60,021	\$ 5,126,679	\$ 0	\$ 350,376	\$ 25	\$ 0	\$ 6,142,804
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund	\$ 99,620	\$ 41,979					\$ 7,637	\$ 52,799			\$ 25		\$ 202,060
Special Revenue Fund	36,980	742	\$ 33,497			\$ 578	52,384	5,073,880		\$ 350,376			5,548,437
Enterpse Fund					\$ 66,036								66,036
Internal Service Fund					199,391								199,391
Expendable Trust Fund		126,880											126,880
Unspent Budget Authority	\$ 136,600	\$ 169,601	\$ 33,497	\$ 0	\$ 265,427	\$ 578	\$ 60,021	\$ 5,126,679	\$ 0	\$ 350,376	\$ 25	\$ 0	\$ 6,142,804

This schedule is prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

Notes to the Financial Schedules

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The Montana Board of Regents and Office of the Commissioner of Higher Education (office) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental, Expendable Trust, and Agency Funds. In applying the modified accrual basis, the office records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the office incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the office to record the cost of employees' annual leave and sick leave when used or paid.

The office uses accrual basis accounting for the Proprietary Funds. Under the accrual basis, as defined by state accounting policy, the office records revenues in the accounting period earned, when measurable, and records expenses in the period incurred, when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the office receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the Statewide Budgeting and Accounting System without adjustment.

Accounts are organized in funds according to state law. The office uses the following funds:

Notes to the Financial Schedules

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund. The office includes funds appropriated for general operations of the office and distributions to the university units and community colleges for their general operations.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. The majority of this activity includes mill levy distributions to the university units and the federal programs including the Federal Family Education Loan (formerly Guaranteed Student Loan) Program and the Vocational Education - Basic Grants to States (formerly Carl D. Perkins) grant.

Proprietary Funds

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the office finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. The office enterprise fund consists of the Montana University System's (MUS) Flexible Spending Account.

Internal Service Fund - to account for providing goods or services to other agencies or departments on a cost-reimbursement basis. The MUS group health insurance plan is accounted for in this fund. The MUS Group Benefits Plan was authorized by the Board of Regents to provide medical coverage to employees of the university system, as well as their dependents, retirees and Consolidated Omnibus Budget Reconciliation Act (COBRA) members. Beginning July 1, 1990, the MUS Group Benefit Plan was fully self insured.

Fiduciary Funds

Trust and Agency Funds - to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. Office

fiduciary funds include Agency Funds related to college license plates, wellness funds, and optional retirement funds and the Expendable Trust Fund related to the Rural Physician Incentive Program. The Legislature established the Rural Physician Incentive Program to encourage physicians to locate in rural Montana areas by paying a portion of the physicians' educational debt.

**2. General Fund Balance
(negative balances)**

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The office does not have a separate General Fund since its only authority is to pay obligations from the statewide General Fund within its appropriation limits. The office records cash or other assets from the statewide fund when it pays General Fund obligations. The office's outstanding liabilities exceed the assets the office placed in the fund, resulting in negative ending fund balances for each of the fiscal years ended June 30, 1998 and 1999.

3. Annual and Sick Leave

Employees at the office accumulate both annual and sick leave. The office pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the accompanying financial schedules. In the Internal Service Fund, the increase in annual and 25 percent of the increase in sick leave are recognized as nonbudgeted expenses when the related liability is recorded at year-end. The office absorbs expenditures for termination pay in its annual operational costs. At June 30, 1998 and 1999, the office had a liability of \$369,626 and \$366,273, respectively, for its Governmental Funds. The liability recorded in the Internal Service Fund was \$3,852 and \$46,175 at June 30, 1998 and 1999, respectively.

Notes to the Financial Schedules

4. **Special Revenue Fund
Cash Transfers-In**

Section 20-25-423, MCA, levies property taxes to support, maintain, and improve the Montana University System. The State Treasurer collects university property tax revenue and records it in a Special Revenue Fund of the Department of Revenue. These collections appear on the office's financial schedules as Cash Transfers-In in the Special Revenue Fund totaling \$14,879,149 and \$14,788,446 in fiscal years 1997-98 and 1998-99, respectively.
5. **Vocational Education -
Basic Grants to States**

The office recorded expenditures of the Vocational Education - Basic Grants to States funds of \$5,628,347 and \$7,025,776 in fiscal years 1997-98 and 1998-99, respectively. The office contracted with the Office of Public Instruction (OPI) to manage the portion of these funds provided to secondary schools. The office transferred \$3,001,314 and \$4,459,874 in the Carl D. Perkins Administration program during fiscal years 1997-98 and 1998-99, respectively, to OPI to fund secondary school vocational education projects. The office recorded funds received from the federal grantor (U.S. Department of Education) as Federal Revenues and the funds sent to OPI as Transfers-Out.
6. **General Fund
Appropriations**

House Bill 2, Laws of 1997, appropriated General Fund moneys to the office for distribution to the units of the university system and the community colleges. The office accounts for this activity in the General Fund as Cash Transfers-In, Accounting Entity Transfers to universities in the Appropriations Distribution program, and Local Assistance from State Sources to community colleges in the Community College Assistance program.
7. **Related Party
Transactions**

The office and the Montana Higher Education Student Assistance Corporation (MHESAC) both have lease agreements with Lewis and Clark County for the building in which they are located. The office has an agreement with the MHESAC to share certain costs associated with the building. The office's Montana Guaranteed Student Loan Program (MGSLP) also has an agreement with the MHESAC for the lease of computer equipment and the supplies and personal services related to the computer system.

The office paid the MHESAC \$393,226 and \$529,204 in fiscal years 1997-98 and 1998-99, respectively. The MGSLP receives certain services from state agencies that directly benefit the MHESAC and MHESAC employees are allowed to participate in the MUS Group Insurance Plan. The MHESAC reimbursed the office \$470,380 and \$509,819 in fiscal years 1997-98 and 1998-99, respectively, for these services. The office accounted for the MHESAC's reimbursements as expenditure reductions.

**8. Netted Guaranteed
Student Loan Program
Transactions**

The office's Guaranteed Student Loan Program received \$19,120,149 and \$18,909,386 in fiscal years 1997-98 and 1998-99, respectively, of reinsurance from the U.S. Department of Education which it used to pay claims to lenders on loans due to default, death, disability, or bankruptcy of the borrowers. In fiscal year 1997-98, the office recorded no revenue and expenditures related to this activity. In fiscal year 1998-99, the office recorded federal revenue and benefits and claims insurance payments expenditures for this activity.

During fiscal years 1997-98 and 1998-99, the office collected money on defaulted loans purchased by the Guaranteed Student Loan Program. The office retained its share to cover collection costs and remitted the remainder to the U.S. Department of Education. The collection costs retained were accounted for as charges for services revenue. Remittances of \$3,020,975 and \$2,335,390 to the U.S. Department of Education in fiscal years 1997-98 and 1998-99, respectively, are not reflected in the accompanying financial schedules.

Office Response



MONTANA UNIVERSITY SYSTEM
OFFICE OF COMMISSIONER OF HIGHER EDUCATION

2500 BROADWAY • PO BOX 203101 • HELENA, MONTANA 59620-3101 • (406)444-6570 • FAX (406)444-1469

March 2, 2000

MAR 3 2000

Mr. Scott Seacat
Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Seacat:

Enclosed are the responses to the financial-compliance audit report of the Board of Regents and Commissioner of Higher Education for the two years ended June 30, 1999. We concur with the recommendations.

We wish to thank your staff for their suggestions for improving the effectiveness of the Office of the Commissioner of Higher Education and for their courtesy in working with our staff. It was particularly helpful to have access to the expertise and professionalism of the two veteran auditors, Pearl Allen and Wayne Guazzo.

Sincerely,

A handwritten signature in cursive script that reads "Laurie O. Neils".

Laurie O. Neils
Director of Budget and Accounting

Enclosures

RECOMMENDATION #1

We recommend the office establish procedures to ensure it complies with the Cash Management Improvement Act agreement as required by federal law.

AGENCY RESPONSE:

Concur.

The Office of the Commissioner of Higher Education has developed written procedures to ensure compliance with the Cash Management Improvement Act. These policies are now being followed and the draw of federal funds aligns with the clearing pattern identified in the State's CMIA agreement.

RECOMMENDATION #2

We recommend the office establish procedures to ensure it receives and reviews all subrecipient audit reports as required by federal regulations.

AGENCY RESPONSE:

Concur.

The office has reinstated procedures to document each grantee's notification of OMB A-133 requirements. We have established a master checklist for verification, receipt, and review of audit reports from grantees.

RECOMMENDATION #3

We recommend the office perform biennial reviews of lenders meeting federal criteria as required by federal regulations for the Federal Family Education Loan Program.

AGENCY RESPONSE:

Concur.

The office has implemented the changes recommended. Two of the top three lenders' offices are located outside Montana. Additional FTE's were requested from the Legislature in 1999 to help us address staff shortages. The request was denied. The agency will be requesting additional FTE's during the 2001 Legislative Session to assist us in realigning staff responsibilities.

RECOMMENDATION #4

We recommend the office reduce expenditures only in the circumstances provided for in state accounting law and policy.

AGENCY RESPONSE:

Concur.

The office agrees that it was a mistake to address the cash shortage in the flexible spending account as an abatement of expenditures. We also agree that the manner in which indirect cost revenues are recorded does not comply with State accounting law and policy. Because the revenues were budgeted as expenditure abatements, the office has insufficient spending authority to change the practice this biennium. The office will work with the Budget Office during budget development for the 2003 biennium to correct this practice.

RECOMMENDATION #5

We recommend the office review the nature of Guaranteed Student Loan Program transactions and the underlying financial activity and make the changes necessary to ensure transactions are recorded and classified on the accounting records in accordance with state law and accounting policy.

AGENCY RESPONSE:

Concur.

The office agrees with the audit recommendation to change the accounting for collection costs and revenues. If we have sufficient spending authority, we will make the accounting change beginning this fiscal year. Because we are uncertain that this accounting change would meet the statutory requirements for a budget amendment, we will seek authority during the next Legislative Session and make the permanent budget change beginning FY2002.

The office also agrees with the audit recommendation concerning revenue misclassifications. At fiscal year end, the office provided the Accounting Division with adjustments that should be made to the State's Comprehensive Annual Financial Report that related to the Guaranteed Student Loan Program. We received nothing from the Accounting Division that told us they had made additional adjustments on our behalf. We will meet with the Accounting Division to ensure we are in agreement about the appropriate classification of revenues.

RECOMMENDATION #6

We recommend the office record Agency Fund activity in accordance with state law and policy.

AGENCY RESPONSE:

Concur.

The office made a good faith effort to correct the prior period recommendation by consulting the fiscal year end accounting memo and the prior audit recommendation. However, we acknowledge that the entire correct process was not followed and the correct entries were not made. The entries will be recorded correctly for fiscal year end 2000.

